

SPECIAL TAX NOTICE

DEFERRED RETIREMENT OPTION PROGRAM (DROP) WITHDRAWAL AND PRE-TAX REFUNDS

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- Required minimum distributions after age 70½ or 72 (See Required Minimum Distributions) or after death.

Payment Options

The required FRS DROP Selected Payout Method Form (DP-PAYT) and FRS Pension Plan Refund Payout Selection Form (REF-PAYT) has three payout options. You can select a direct rollover into an eligible plan, select a lump sum payment, or select a partial lump sum payment and roll over the remaining balance.

A direct rollover election means the FRS will send the payment directly to your selected eligible plan. Once the amount is rolled over, it becomes subject to the receiving plan's tax rules.

A lump sum election means the FRS will send the payment directly to you, **minus** 20 percent as required for federal withholding taxes.

A partial lump sum election means the FRS will send a portion of your payment as a lump sum to you, **minus** the 20 percent federal withholding taxes. The FRS will send the remaining portion as a direct rollover to an eligible plan, subject to that plan's tax rules.

Note: *If your DP-PAYT form is not received within 60 days of your DROP termination date, the FRS is required by law to pay a lump sum distribution of your DROP payment minus the required 20 percent withholding tax.*

If, after you receive a lump sum payment, you decide to roll some or all of this payment into an eligible plan, you have 60 days from the payment date to complete the rollover. You should roll over the entire pre-tax (100 percent) **gross** amount into a **pre-tax** eligible plan, or you will have to pay federal income taxes on the difference. This means you would have to pay the 20 percent you did not receive due to the required lump sum withholding taxes. However, this amount may be recovered when you file your annual tax return.

For example: Let's say your gross (pre-tax) DROP balance is \$10,000 and you choose to have the FRS pay the entire amount directly to you as a lump sum payment. The FRS withholds 20 percent, or \$2,000, and you'll receive a check for the **net** (after-tax) amount of \$8,000. If you then choose to roll your DROP distribution into a pre-tax eligible plan (taxed upon taking a distribution), you will need to deposit the entire gross (pre-tax) amount of \$10,000 to avoid any income tax. Any amount less than the gross (original) DROP balance is considered taxable income in the year the payment was made. Also, you may be subject to an additional 10 percent tax for

GENERAL ROLLOVER INFORMATION

Rollover Eligible Plans and Distributions

You are receiving this notice because all or a portion of your DROP payment or refund from the Florida Retirement System (FRS) Pension Plan is eligible to be rolled over into one of the eligible Plans listed below:

- IRA: Traditional, Roth (non-designated), Inherited Traditional or Roth, and SEP.
- Eligible Employer Plans: 457(b) government Plans, pre-tax 403(b) and qualified plans.

The FRS **cannot** make a DROP payment until you have terminated your FRS employment. Refunds **cannot** be paid until after you have terminated FRS employment for three calendar months. Additionally, payments cannot be paid for at least 30 days after you receive this notice. After you receive this notice, you have 30 days to select your payout option. However, you may waive this notice period by indicating your payout method on the required payout form. Your distribution will be processed accordingly as soon as possible after your payout form is received.

Only the FRS DROP payment and pre-tax refunds are eligible to be rolled over, not the FRS distributions listed as follows:

- Monthly FRS Plan benefit payments, including continued beneficiary payments

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early distribution. Depending on your annual tax return calculations, the Internal Revenue Service (IRS) may refund you the 20 percent tax withholding.

Note: If you miss the 60-day rollover deadline, the IRS may waive the deadline under certain extraordinary circumstances, such as external events preventing you from completing the rollover by the 60-day deadline. To apply for a waiver, you must file a private letter ruling request with the IRS, which includes a nonrefundable user fee. For more information see IRS Publication 590, Individual Retirement Arrangements (IRAs).

Tax Effects on Payment Options

The FRS will withhold 0 percent withholding tax on direct rollover elections unless you choose to roll it into an after-tax eligible plan (Roth IRA – see below). For a lump sum election, the FRS will withhold 20 percent withholding tax, even if you choose to roll your lump sum payment into an eligible plan within 60 days of the payment date.

If you are younger than age 59½, your FRS payout is considered an ‘**early distribution**.’ This means you are still responsible for the additional 10 percent early distribution penalty paid to the IRS. The 10 percent additional income tax penalty **does not** apply to the following payments from the FRS:

- Payments made after you separate from service if you will be at least age 55 when you separate;
- Payments made after you separate from service if you are a public safety employee and you are at least age 50 when you separate;
- Payments that start after you separate from service if paid at least once a year in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary);
- Payments after your death;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a Qualified Domestic Relations Order (QDRO).

Rollover into a Roth IRA

You can roll over your FRS DROP or refund payment to an after-tax Roth IRA (excluding designated Roth accounts) and choose 0 percent (the default), 10 percent or 20 percent withholding tax on the DP-PAYT Form. Early distribution penalties will **not** apply unless you take the amount you rolled over out of the Roth IRA within five years, starting from January 1 of the year you made the

rollover. If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least five years. This five-year rule begins January 1 of the year for you first contribute to a Roth IRA.

You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information see IRS Publication 590, Individual Retirement Arrangements (IRAs).

SPECIAL RULES

After-Tax Contributions

Any after-tax employee contributions made to the FRS Plan are not taxable and will be paid directly to you in accordance with the IRS’ Simplified Method calculation. For more information, see IRS Publication 575, Pension and Annuity Income.

Required Minimum Distribution (RMD)

The FRS will calculate and pay your RMD mandated by the IRS based on your age before terminating DROP employment or becoming eligible for a refund of contributions. If either of these events happened in 2019 or earlier, the FRS will pay your RMD if you were 70½ or older. If the event happened in 2020 or later, the FRS will pay your RMD if you were 72 or older. Your RMD amount is your pre-tax FRS payment minus the required 10 percent federal withholding taxes.

Born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information see IRS Publication 575, Pension and Annuity Income.

Payments under a Qualified Domestic Relations Order (QDRO)

If you are the spouse or former spouse of a member who receives a DROP payment from the FRS under a QDRO, you generally have the same options the member would have. For example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it. Payments under the QDRO are not subject to the 10 percent additional income tax on early distribution.

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Nonresident Alien

If you are a nonresident alien and do not select a direct rollover of your FRS payment to a U.S. IRA or U.S. employer plan, then instead of withholding the standard 20 percent, the FRS Plan is required to withhold 30 percent of the payment for withholding taxes. For more information see IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

BENEFICIARY INFORMATION

Payments to Surviving Spouse

For those receiving a payment from the FRS as the surviving spouse of a deceased member, lump sum elections and rollover elections will be taxed in the same manner as described elsewhere in this notice. However, 10 percent additional income tax on early distributions and the special rules for public safety officers do not apply and the special rule described under the section "If you were born before January 1, 1936" applies only if the deceased member was born on or before January 1, 1936.

If you choose to do a rollover to an IRA, you may treat the IRA as your own or an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours. Payments made to you from the IRA before you are age 59½ will be subject to the 10 percent additional income tax on early distributions (unless an exception applies) and the required minimum distributions from the IRA will be based on your date of birth, not the member's.

Note: A rollover to a Roth IRA is treated like any other Roth IRA of yours so that you will not have to receive any required minimum distributions during your lifetime.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10 percent additional income tax on early distributions but will be subject to the required minimum distribution rules based on the member's date of birth.

Payments to Other Beneficiaries

For those receiving a payment from the FRS as a designated beneficiary other than a surviving spouse of a deceased member, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10 percent additional income tax on early distributions and you will be subject to the required minimum distribution rules.

If you choose not to roll over the distribution, the amount will be taxed in the same manner described elsewhere in this notice. However, the 10 percent additional income tax on early distributions and the special rules for public safety officers **do not** apply. The special rule described under the section "If you were born on or before January 1, 1936" applies only if the member was born on or before January 1, 1936.

FOR MORE INFORMATION

Please contact a professional tax advisor before electing a payment from the FRS.

You can find more information in the publications listed below that are available at your local IRS office, on the web at [IRS.gov](https://www.irs.gov) or by calling 1-800-TAX-FORM (829-3676).

- IRS Publication 575, Pension and Annuity Income
- IRS Publication 590, Individual Retirement Arrangements (IRAs)
- IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans)

Please visit our web site for additional information at: frs.myflorida.com.

You can reach the division directly toll free at (844) 377-1888, or locally at (850) 907-6500.

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